

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

FINAL DETERMINATION OF ACCEPTANCE

Petition of El Paso E&P Company, L.P.) Case No.: DOG-11-2008
For exception to general unit size and well spacing)
requirements for horizontal New Albany Shale wells in)
portions of Daviess and Knox Counties.

As provided in 312 IAC 16-5-2, an informal hearing was conducted under 312 16-2-3 and held in this matter commencing at 6:30 P.M. (Eastern) on August 12, 2008, before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at Holiday Inn Express located at 1808 East National Highway, Washington, IN 47501. The purpose of the informal hearing was to consider the Petition for an exception to the well spacing and drilling unit requirements filed by El Paso E&P Company (Petitioner) for the following areas (Petition Area) in Daviess and Knox Counties, Indiana:

Township-Range	Sections and Locations
3N-5W	4 through 9, 11, 14 through 23, 27, 28
4N-5W	4 through 9, 14 through 34
3N-6W	1 through 7, 9 through 15, 24
4N-6W	1 through 36
5N-6W	19 through 36 (Only Section 19 is in Knox County)
3N-7W	1 through 11, North half of 12, Fractional NW/4 and SW/4 of 15, 16 through 21, 29, 30, Location 185, 189, 191, 241, 243, 258, 269, 271, 272, 274, 275 through 279, 292, 293 (Only Section 30 is in Knox County)
4N-7W	1 through 36 (Only Sections 4 through 7, 18, 19, 30 and 31 are in Knox County)
5N-7W	25, 26, 34 through 36 (Only Sections 25, 26, and 34 are in Knox County)

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division of Oil and Gas (Director) makes the following Findings of Fact, Conclusions of Law and Final Determination of Acceptance:

FINDINGS OF FACT

1. Petitioner El Paso is a Limited Partnership whose principal place of business is 1001 Louisiana Street, Houston, Texas 77002. El Paso is authorized to transact business in the State of Indiana.

2. Indiana Code 14-37-3-3 requires the IDNR to regulate the spacing of wells for oil and gas purposes through the establishment of rules providing minimum distances between wells and adjacent properties, and minimum acreage requirements for each well taking into consideration of regional and geological characteristics and factors conducive to the most efficient and economical recovery of oil and gas.
3. 312 IAC 16-5-1 through 312 IAC 16-5-3 contain the rules adopted by IDNR for regulation of well spacing and drilling unit size.
4. 312 IAC 16-5-2 allows the Division Director to grant an exception to the spacing or drilling unit requirements of 312 IAC 16-5-1 and 312 IAC 16-5-2 where the request is supported by unusual regional or geological characteristics and the exception is conducive to the most efficient and economical recovery of oil and gas.
5. Petitioner asserts that it is the holder of legal title to and is the duly authorized representative of various owners of contractual or other beneficial interests in certain oil and gas leaseholds covering a majority of the acreage within the Petition Area.
6. Petitioner proposes to establish horizontal well drilling units for the New Albany Shale formation within the petition area as follows:
 - a. To eliminate standard spacing restrictions between single horizontal drainholes drilled in separate drilling units and between legs of multilateral horizontal drainholes drilled in a single drilling unit, except that no portion of any drainhole shall be located within three hundred thirty (330) feet of any unleased property boundary.
 - b. To establish drilling units containing three hundred twenty (320) acres, more or less, which will be comprised of two (2) contiguous quarter sections of land through which the drainhole traverses, when a single lateral drainhole is drilled.
 - c. To establish drilling units containing six hundred forty (640) acres, more or less, which will be comprised of four (4) contiguous quarter sections of land through which one or more of the horizontal drainholes traverse, when at least two horizontal drainholes, originating from a single wellbore, are drilled.
 - d. Said one hundred sixty (160) acre quarter section drilling unit building blocks shall be established by the rectangular surveying system of the State of Indiana.
 - e. When correction or irregular sections are encountered, a variance shall be allowed so that Petitioner may establish drilling units as close as possible to the acreages set out herein.
 - f. In those portions of the Petition Area that contain divisions of land identified as Locations, which have not been surveyed as part of the rectangular surveying system, all of the land located therein is described in the Petition by its north and south running range lines and its east and west running township lines. The exterior boundary of the resulting sections of land shall be further defined by following said range and township lines to the intersection of these lines. Said sections can be further subdivided into quarter section drilling unit building blocks using this same method. A portion of one or more Location, or all of a Location, may be located within the boundaries of a particular section of land.

7. Petitioner asserts that establishing the proposed horizontal well drilling units is supported by regional and geological characteristics and would allow the most efficient and economic recovery of natural gas as follows:
- Drilling into the New Albany Shale formation in and near the Petition Area has produced commercial quantities of natural gas.
 - The unique characteristics of the New Albany Shale formation and its low permeability requires the use of horizontal drainholes to allow the Petitioner to more efficiently and economically develop this unconventional shale gas resource at the Petition Area.
 - Drilling horizontal drainholes enhances gas recovery within the New Albany Shale formation by cutting across existing fracture patterns within the formation which are often more vertical than horizontal in nature, thereby facilitating the flow of gas from the shale, to the fractures, to the drainhole.
 - Drilling a single horizontal drainhole in the manner described by Petitioner can effectively and economically recover the natural gas resources within a three hundred twenty (320) acre drilling unit and drilling a multilateral horizontal drainhole in the manner described by Petitioner can effectively and economically recover the natural gas resources within a six hundred forty (640) acre drilling unit.
 - The proposed exceptions to the General Oil and Gas Well Spacing Rules and General Oil and Gas Well Drilling Unit Size Rules will not result in a loss of resources within the New Albany Shale formation of the Petition Area. The variances will enhance recovery of the natural gas from the low permeability of the New Albany Shale formation.
8. Petitioner attached the following documents to its Petition: Exhibit "A" – Map of Petition Area
9. As required by 312 IAC 16-2-3 (c), notice of the date, time, and place of the informal hearing held at the Holiday Inn Express in Washington, Indiana on August 12, 2008, was published in the Washington Times-Herald newspaper on July 25, 2008, and in the Vincennes Sun-Commercial newspaper on July 25, 2008.
10. The following persons were present at the informal hearing held on August 12, 2008:


<u>Person</u>	<u>Representing</u>
Karen Anspaugh, Zionsville, IN	El Paso
Mike Duncan, Washington, IN	El Paso
Elizabeth R. Williams, Houston, TX	El Paso
Joel Degenstein, Houston, TX	El Paso
Steve Biancardi, Houston, TX	El Paso
Neil McCrary, Petersburg, IN	Self
John D. Divine, Washington, IN	Self
George Mathies, Loogootee, IN	Self

11. No objections to the Petition were submitted by any persons present at the informal hearing.
12. No objections to the Petition were submitted by any other parties, at any time on or before the date of this Final Determination of Acceptance.
13. Based upon a review of all relevant information, the Petition should be accepted in order to allow the Petitioner to proceed with the efficient and economical development of the proposed drilling units in accordance with the Final Determination of Acceptance.

CONCLUSIONS OF LAW AND FINAL DETERMINATION OF ACCEPTANCE

1. IC 14-37-3-3 and any rules promulgated thereunder apply and are pertinent to the subject matter of the Petition filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to approve this Petition.
4. The Petition, herein referenced, contains the elements required by law.
5. The well spacing criteria and drilling unit acreage requested by Petitioner are hereby approved within the designated areas in Daviess and Knox Counties in Indiana for purposes of drilling horizontal wells for the production of natural gas from the New Albany Shale formation only.
6. This determination is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7.

August 22, 2008
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

NOTICE OF FINAL DETERMINATION OF ACCEPTANCE

NOTICE OF RIGHT TO APPEAL

CERTIFICATE OF NOTIFICATION TO AFFECTED PARTIES

Notification is herein provided that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, has approved and issued a Final Determination of Acceptance under Administrative Cause No. DOG-11-2008 with respect to a Petition for an exception to the well spacing and drilling unit requirements found in 312 IAC 16-5-1 through 312 IAC 16-5-3 filed by El Paso E&P Company, L.P. (Petitioner). The approval authorizes the Petitioner to establish drilling units of the following sizes for horizontal wells producing natural gas from the New Albany Shale formation within the Petition Area:

- three hundred twenty (320) acres, more or less, to be comprised of two (2) contiguous quarter sections, when drilling a single lateral drainhole; and
- six hundred forty (640) acres, more or less, to be comprised of four (4) contiguous quarter sections of land, when drilling at least two (2) horizontal drainholes originating from a single wellbore.

The Petition Area (approximately 178 sq. mi.) is comprised of the following areas in Daviess and Knox Counties in Indiana:

Township-Range	Sections and Locations
3N-5W	4 through 9, 11, 14 through 23, 27, 28
4N-5W	4 through 9, 14 through 34
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The terms of the Final Determination of Acceptance are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person must petition for review in writing stating facts that demonstrate

the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.

In order to be timely, a petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Indiana Government Center South, 402 W. Washington St., Rm. W272, Indianapolis, IN 46204 within eighteen (18) days after the mailing date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the enclosed Final Determination of Acceptance will become final and binding.

I certify that a copy of the referenced Final Determination of Acceptance was sent by First Class Mail on the date indicated below to the following:

Karen J. Anspaugh, Attorney for Petitioner, 49 Boone Village, Suite 168, Zionsville, IN 46077

Elizabeth R. Williams, El Paso E&P Company, L.P., P.O. Box 2511, Houston, TX 77252-2511

Neil A. McCrary, P.O. Box 62, Petersburg, IN 47567

John D. Divine, 361 East 900 North, Washington, IN 47501

George Mathies, 1547 North 1200 East, Loogootee, IN 47553

I further certify that a notice of the approval of the Petition is to be published in the Washington Times-Herald newspaper and in the Vincennes Sun-Commercial newspaper in the earliest possible edition following the date of this Final Determination of Acceptance. The notice will advise interested persons that this determination is subject to appeal and review under IC 4-21.5-3-7 and provide instructions for the timely filing of a petition for administrative review.

August 22, 2008
Date



Herschel L. McDivitt, Director
Division of Oil and Gas